

Message Text

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ACTION EB-07

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SUBJ: UAE INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

THE UNITED ARAB EMIRATES (UAE) IS A NEW NATION, POLITICALLY AND ECONOMICALLY. STRUGGLING WITH THE ABSORPTION OF VASTLY INCREASED OIL REVENUES, FLEDGLING UAE INSTITUTIONS AND POLITICAL LEADERSHIP HAVE HAD LITTLE TIME TO DEVOTE TO THE FORMULATION OF A COHERENT, CONSISTENT POLICY TOWARDS FOREIGN INVESTORS. THE UAE IS ATTEMPTING TO ACHIEVE TWO VERY AMBITIOUS GOALS: TO FURTHER EXPLOIT ITS NATURAL ADVANTAGES IN THE PETROLEUM INDUSTRY AND DEVELOP, AS FAR AS LIMITED RESOURCES PERMIT, THE NON-OIL SECTOR OF THE ECONOMY. THE LATTER POLICY ENTAILS ENCOURAGING THE UAE PRIVATE SECTOR TO INVEST IN NON-OIL RESOURCE EXPLOITATION AND IN SECONDARY AND TERTIARY INDUSTRIES. WHERE THE PRIVATE SECTOR FAILS TO TAKE ADVANTAGE OF OPPORTUNITIES, THE PUBLIC SECTOR ITSELF WILL UNDERTAKE THE INVESTMENT. THE UAE NEEDS, AND WELCOMES, FOREIGN CAPITAL TO FORM JOINT VENTURES TO INSTRUCTURE TECHNOLOGY, MANAGERIAL EXPERTISE, AND MANPOWER TRAINING TO WHAT IS ESSENTIALLY AN UNDERDEVELOPED ECONOMY. THE UAE MAINTAINS AN UNINHIBITED FOREIGN EXCHANGE MARKET

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KET, PLACING NO RESTRICTIONS ON THE REPARTRIATION OF PROFITS. IF

THE GOVERNMENT IS INVOLVED, IT IS POSSIBLE TO OBTAIN EXEMPTIONS FROM IMPORT DUTIES, WHICH ARE IN ANY CASE ALREADY VERY LOW. THE FOREIGN INVESTOR DOES FACE SOME PROBLEMS HOWEVER. FIRST, THE UAE HAS NOT LEGISLATED ANY UNIFIED COMMERCIAL OR COMPANY LAWS. THE RIGHTS AND OBLIGATIONS OF THE FOREIGN INVESTOR ARE THUS BASED ON AN UNCERTAIN COMBINATION OF ISLAMIC TRADITION, ENGLISH COMMERCIAL PRACTICE, AND AD HOC ADMINISTRATIVE REGULATION. THE INVESTOR WILL FIND THAT LAND OWNERSHIP, FINANCING, AND RATES OF TAXATION WILL VARY WIDELY FOR SUCH A SMALL COUNTRY. SECOND, THE EMIRATE GOVERNMENTS STILL TEND TO COMPETE WITH ONE ANOTHER, WITH THE FEDERAL GOVERNMENT AND AT TIMES WITH THE PRIVATE SECTOR. THIS ABSENCE OF ANY COORDINATED INDUSTRIAL DEVELOPMENT POLICY MAY HAVE SERIOUS CONSEQUENCES. INEFFICIENT PLANTS COULD ENTER THE MARKET RESULTING IN SURPLUS CAPACITY, HIGH COST OF PRODUCTION, AND OVEREXPLORATION OF LIMITED NON-OIL NATURAL RESOURCES. THIRD, THE FOREIGN INVESTOR IS EXPECTED TO ASSUME FULL MARKETING RESPONSIBILITIES. BECAUSE DOMESTIC MARKETS ARE STILL RELATIVELY THIN, THE FOREIGN INVESTOR MUST BE PREPARED TO DEVELOP EXPORT OUTLETS OR PURCHASE PLANT OUTPUT. INTERRELATED AS THEY ARE, THESE THREE PROBLEMS RAISE SERIOUS CONCERNS AND COULD WELL RESULT IN LOW RATES OF RETURN TO FOREIGN INVESTORS.

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